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THE IMPACT OF TRANSNATIONAL CORPORATIONS ON THE BALANCE OF PAYMENTS OF EGYPT

A TECHNICAL PAPER

by

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A study on the impact of transnational corporations on the balance of payments of Egypt

Introduction

1. There is no standard method of measuring the impact of transnational corporations on the balance of payments of different countries, since the impact differs accordingly to the economic system, investment and exchange policies and the degree of economic liberalization or controls, not to mention the problem of the availability of statistical data. A practical approach is to design a general framework within which a comparative study may be conducted, with the most relevant factors analysed and measured whenever possible, and with due regard to the special circumstances and economic policy of each country. Comparing results reached at by studies on countries at the same level of development and with similar economic systems and policies may serve as a very useful guide for future economic policy, as regards the role which may be played by transnational corporations and their impact on the balance of payments.

2. While this general framework may include both macro and the micro analyses, as well as both the direct and the indirect effects of transnationals any study should be strictly confined to the impact of transnationals on the balance of payments. It is also to be noted that the strict isolation of one form of impact from other aspects and related factors may not only be impossible but also unadvisable. Moreover a prerequisite of such a study in a certain country, is that transnational corporations are allowed to operate in the country and a required minimum of years have passed so that a trend may be established as regards their impact on the balance of payments.

3. It is further suggested that not only the impact of transnational corporations on the balance of payments of a certain country should be studied but also the impact of the balance of payments on the operations of the transnational corporations. Since the balance of payments is also a part of a larger system of social accounts recording the economic activity of an economy and its various sectors, so the study should include certain aspects of the economy which are reflected in and affected by the balance of payments. The most important of these aspects, especially in developing countries, are "the absorptive capacity", the "credit worthiness", the "investment climate", the "exchange policy" and the degree of liberalization in the economy.

4. "The absorptive capacity" of a country is measured by its ability to use capital productive which also depends on the "availability of existing and potential investment opportunities. Other indicators of the absorptive capacity are (a) the mobilization of additional internal resources as indicated by a higher marginal rate of saving than the average rate of saving, (b) basic facilities in the economic and social infrastructure, and (c) application of modern technology adapted to the conditions and resources of the host country.

5. The credit worthiness of a country relates to its ability to service its past debts and to contract new ones without undue difficulties. Governments, lending institutions and foreign investors are mainly guided by this deficit in

a country's balance of payments may seriously handicap its efforts to mobilize foreign resources and to fill its foreign exchange gap. Unless prompt action is taken, it may be very difficult for the country to regain its credit worthiness.

6. An appreciable degree of liberalization in the economic system is required for the mobilization of foreign resources through the market mechanism and for the smooth inflow of foreign capital. Liberalization is not necessarily synonymous with private enterprise. A country may follow a policy of liberalization with State-owned and mixed enterprises accounting for an important part of its economic activity. Such a policy is characterized rather by freer access to domestic and foreign markets, less administrative interference with the mobility of factors of production and with the functioning of markets and the application of a body of incentives rather than controls.

7. The impact of transnational corporations on the balance of payments of Egypt, as a case study, may be of particular interest, since its Government has reversed its policy of controls, the dominance of public enterprise, reliance on foreign loans rather than foreign investment, and cumbersome government regulations in the fields of industry, trade and other sectors of the economy, opting instead for a new policy of an "open door" economy and liberalization. The general methodology outlined above is followed in this study, and the relevant available data is given. Mainly from the Egyptian Investment Authority, IMF and the Central Bank of Egypt.

From mid-1950s and the mid-1970s

8. The Egyptian economy during this period was characterized by the extensive economic role assumed by the Government. The public sector comprised about 90 per cent of total monetized investment. Annual investment programmes were the main planning instrument. The public sector owned most of modern industry, all banks, insurance companies and financial companies, a large proportion of construction firms, transport and the wholesale trade. While land reform put the old expropriated land in private ownership, new reclaimed land was owned by the State. The Government had considerable influence in agriculture not only through its traditional responsibilities with the water-supply system, but also through the co-operative system and the control it exercised in selling inputs and buying major crops. An important feature of the economic system was an extensive system of price and cost controls. In spite of the fact that the private sector assumed a wider role in the economic activity in the late 1960s and despite some measures taken in the early 1970s to encourage foreign investment (tax exemptions and repatriation of profit) the investment climate in the country could hardly encourage sizable amounts of foreign investment and inflow of capital. Besides cumbersome exchange control regulations, the absence of a market mechanism in the major part of the economy and the dominance of public enterprise, the country had been at war or was preparing for it. So it had to shoulder the burden not only of the transitional periods of development but also the dislocations of war and defence. With the exception of petroleum and drugs and pharmaceuticals

where the public enterprise was in partnership with foreign companies, transnational corporations were reluctant to invest in Egypt.

9. A major change in policy was the promulgation of Law No. 43 in 1974 concerning "The investment of Arab and foreign funds and the free zones" which was amended by Law No. 32 of 1977 which further fortified incentives and gave assurances to foreign investors. The latter was issued to remove certain ambiguities in Law No. 43 of 1974 and to fill certain gaps which undermined, in certain areas of application, the purpose for which the Law was originally promulgated. An administrative body governing the Law was formed, "The General Authority for Arab and Foreign Investment and the Free Zones," under the chairmanship of the Minister of Economic Affairs.

10. The main features of the Law are the following:

(a) Fields of investment

(i) Investment is approved for the main purpose of realizing economic and social objectives within the framework of Egypt's general policy and national plan provided that such investment is made in projects requiring international expertise in the spheres of modern development or in projects in need of foreign capital.

(ii) Main fields of investment are: industrialization, mining, energy, tourism, transport, housing and urban development, construction, contracting activities, technical consultancy activities, investment and merchant banks, investment companies which aim at utilizing funds in the fields enumerated by the Law, and reinsurance companies.

(iii) Special priority is reserved for projects designed to generate exports and reduce the need to import basic commodities as well as for projects which require advanced technology or which make use of patents and trademarks of worldwide reputation.

(iv) Licences in the free zones may be granted for

- manufacturing, assembling, processing and other operations which need the advantage of a free zone to benefit from the country's geographical position;
- storing of transit goods, as well as sorting, mixing and repacking which adapt goods warehoused in the free zones to the requirements of the market.

(b) Incentives and guarantees

Important incentives and guarantees are given to projects established under the provisions of the Law, the most important of which are the following:

(i) Projects may not be nationalized or confiscated. The assets of such projects cannot be seized, blocked or sequestered except by legal procedures.

(ii) Investment disputes in respect of the implementation of the Law are to be settled in a manner to be agreed upon with the investor, or within the framework of the agreements in force between Egypt and the investor's home country, or according to the Convention for the Settlement of Investment Disputes to which Egypt has adhered.

(iii) Companies enjoying the provisions of the Law are deemed to belong to the private sector of the economy irrespective of the legal nature of the indigenous capital participating therein. Legislation, regulations and statutes applicable to the public sector of the economy and its employees do not apply to these companies.

(iv) Projects are exempt from the tax, commercial and industrial profits. Profits distributed are exempt from tax on revenues from moveable capital, from commercial and industrial profits and from the general tax on income relative to the tax proportion of such profits. Such exemptions are enjoyed for a period of five years and they apply, for the same period, to the proceeds of the profits which are reinvested within the enterprise. This period may be extended to eight years if required by considerations of public interest in view of the nature of the project, its geographical location, its importance to economic development, the volume of its capital and the extent to which it participates in exploiting natural resources or increasing exports.

11. Similarly, for projects of reconstruction, the establishment of new cities and land reclamation enjoy exemptions for ten years which may be extended to 15.

12. These incentives and guarantees stipulated by the Law, as well as the wide coverage of projects and sectors have created a favourable investment climate in the country. The Government has taken other steps to improve this climate especially as regards its credit worthiness and its absorptive capacity.

13 As a result of a variety of factors, chief among them being the higher prices of inputs, the unfavourable terms of trade, the dislocation of the 1973 war and its aftermath, the non-availability of long- and medium-term credit and resort to costly short-term banking facilities to finance important imports in the early 1970s the country accummulated a sizable external civilian debt, the persistence of which would have undermined the credit worthiness of the country in the international money and capital markets. As a matter of fact the servicing of external debt had been a recurrent problem in the management of Egypt's balance of payments.

14. To rectify this situation, in the last few years, the Government has followed, the policy of a more balanced maturity structure and debt control aimed at preventing the recurrence of servicing problems. A marked improvement in the reduced use of short-term correspondent bank credit facilities. A central authority for recording, analysing and controlling external debt was also established in the Central Bank.

15. Another important factor which has contributed to the credit worthiness of the country has been the availability and continuity of external resources and aid. The main sources have been the Arab countries (which terminated, however, their loans and aid since the Peace Agreement), the United States, international organizations and the "Consultative Group of the Western Countries". The exchange system reform, characterized mainly by the virtual unification of the exchange rate and introducing a great degree of liberalization in the exchange control system, has also been a major step in improving credit worthiness of the country.

16. With respect to absorptive capacity of Egypt the most important favourable factors are the popular endorsement of an ambitious strategy for economic development with greater reliance on the market mechanism and private initiative; the existence of fairly large domestic market; the numerous incentives and guarantees stipulated by the new Investment Law; the availability of educated skilled and adaptable manpower as well as experienced business, academic and trained entrepreneurs who understand and welcome new technology; and the existence of a level of economic development and industrial structure which allows the absorption of sizable, diversified investment at a reasonable and competitive cost. Beside the studies currently conducted by the Investment Authority as regards investment opportunities, which are made available to interested prospective investors, there is a large number of business consultants and study groups engaged mainly in conducting feasibility and pre-investment studies.

17. These basic policy changes have already started a process of structural change in the economy. The external sector, as reflected by the balance of payments, has greatly improved, owing mainly to important items in both the current and the capital accounts. A major factor in improving the capital account has been the great increase in private investment flows, as a result of the "open door policy" in the framework of which the transnational corporations have been willing to participate in the investment process with their capital and/or technology. This factor, together with some direct action and agreements by the Government has also strengthened important items in the current account, chief among them being petroleum, the Suez Canal, tourism and the remittances of Egyptians working abroad. Table 1 shows the development of the balance of payments during the years 1975 to 1978. (Some figures for 1979 were estimated and are provisional.

18. As shown on table 1, since 1975 there has been a marked improvement in Egypt's balance-of-payments position. The current deficit declined from a peak of $2.4 billion in 1975 to $1.4 billion in 1978. Including the non-monetary capital account the deficit fell from $2.3 billion to $454 million. The provisional figures for 1979 show that a slightly higher deficit on the current acount will be more than offset by the improvement in the capital account. The above-mentioned basic changes in the structure of the balance of payments are expected to continue as a trend with the main factors of improvement in both the current and the capital accounts.

Table 1. Summary balance of payments of Egypt
(1975 - 1978)
(in thousands of United States dollars)

		1975	1976	1977	1978
A.	Trade balance	-2,831.9	-2,777.6	-2,723.0	-3,692.5
	Exports (f.o.b.)	1,566.0	1,609.3	1,992.6	1,983.6
	Imports (c.i.f.)	-4,397.9	-4,386.9	-4,715.6	-5,676.1
B.	Services (net)	356.6	1,180.4	1,463.4	2,218.8
	Receipts	1,079.7	1,976.5	2,551.8	3,445.7
	Payments	- 723.2	- 796.1	-1,088.4	-1,226.9
C.	Trade & service (A + B)	-2,475.4	-1,597.2	-1,259.6	-1,473.7
D.	Private unrequested transfers	90.2	87.1	60.6	51.4
E.	Current balance (C + D)	-2,385.2	-1,510.1	-1,199.0	-1,422.3
F.	Non-monetary capital (net)	81.3	429.6	433.4	994.9
G.	Errors & ommissions	24.5	13.5	27.8	26.6
H.	Balance requiring financing (E + F + G)	-2,328.4	-1,067.0	- 737.8	- 454.8

Source: Central Bank of Egypt and IMF.

The impact of the new investment policy

19. Table 2 shows approved inland, public and private free zones as at 31 December 1979, table 3, projects in actual production and table 4, projects under implementation. For each type of projects, the participation of local and foreign capital is shown, as well as the projected total investment (capital + loans).

20. The most important results as shown in these tables are the following:

(a) Inland projects

21. The total number of approved projects is significant (766 projects) and it covers a very wide range of economic sectors and types of projects. The number of projects in production and under implementation is equally significant, accounting for 27 per cent and 38.4 per cent respectively; taken together they represent 65 per cent of the total as shown on table 5.

Table 2. Approved inland, public and private free zones projects as at 31 December 1979

(Value in thousands of Egyptian pounds)

		Number	Capital			Total Investment
A.	Inland projects		Local	Foreign	Total	
1.	Investment companies	37	199 129	255 947	455 076	501 046
2.	Banks & banking institutions	43	72 465	120 835	193 300	193 300
3.	Tourism	96	195 962	209 326	405 288	716 979
4.	Housing projects	43	59 131	100 762	159 893	234 569
5.	Transport	12	3 086	29 615	32 701	78 347
6.	Health	17	16 987	21 435	38 422	51 275
7.	Agriculture	38	59 379	56 860	116 239	275 684
8.	Contracting	72	21 948	38 399	60 347	105 419
9.	Consultancy	20	2 849	4 596	7 445	8 500
10.	Services	22	24 871	131 031	155 902	199 743
11.	Textiles	38	66 530	55 645	122 175	652 400
12.	Food and Beverages	53	33 063	34 157	67 220	172 509
13.	Chemicals	91	76 521	93 953	170 474	282 809
14.	Wood products	12	3 610	12 242	15 912	26 046
15.	Engineering	42	43 148	62 953	106 101	280 590
16.	Building materials	37	70 749	39 518	110 267	292 473
17.	Metallurgy	25	13 346	20 448	33 794	46 062
18.	Pharmaceuticals	9	3 831	5 062	9 893	16 731
19.	Mining and Petroleum	9	3 026	14 176	17 202	34 658
	Total	766	969 691	1 307 960	2 277 651	4 133 918
B.	Public free zones Total	249	5 875	185 003	190 878	317 431
C.	Private free zones Total	54	4 693	203 321	208 014	1 004 532
	GRAND TOTAL	1 079	980 259	1 696 284	2 676 543	5 510 881

Source: Ministry of Economic Co-operation..

Table 3. Inland, public and private free zones projects in production as at 31 December 1979

(Value in thousands of Egyptian pounds)

	Number	Capital			Total Investment
A. Inland projects		Local	Foreign	Total	
1. Investment companies	36	130 919	126 763	257 682	267 352
2. Banks & banking institutions	31	31 510	73 690	105 200	105 200
3. Tourism	21	11 939	20 080	32 019	62 030
4. Housing	3	188	385	573	658
5. Transport	4	1 803	18 762	20 565	32 065
6. Health	1	200	35	235	390
7. Agriculture	10	28 959	22 182	51 141	119 154
8. Contracting	26	6 883	10 576	17 459	33 060
9. Consultancy	11	1 158	1 787	2 945	3 100
10. Services	10	1 259	2 961	4 220	5 307
11. Textiles	20	1 839	11 260	13 099	16 342
12. Food and Beverages	14	10 107	9 039	19 146	40 113
13. Chemicals	41	10 577	21 938	32 515	36 921
14. Wood products	4	404	737	1 141	1 263
15. Engineering	17	7 031	10 269	17 300	25 043
16. Building materials	9	2 498	5 761	8 259	9 702
17. Metallurgy	15	9 112	13 110	22 222	29 031
18. Pharmaceuticals	2	72	1 826	1 898	2 235
19. Mining and petroleum	5	2 366	4 468	6 834	15 204
Total	180	258 824	355 629	614 453	804 225
B. Public free zones	137	3 437	91 662	95 099	135 377
C. Private free zones Total	38	2 821	95 788	98 609	111 407
GRAND TOTAL	455	265 082	543 079	318 161	1 101 009

Source: Ministry of Economic Co-operation.

Table 4. Inland, public and private free zones projects under implementation as at 31 December 1979

(Value in thousands of Egyptian pounds)

		Number	Capital			Total Investment
			Local	Foreign	Total	
A.	Inland projects					
1.	Investment companies	23	32 738	50 556	83 294	89 594
2.	Bank and banking institutions	8	30 140	24 860	55 000	55 000
3.	Tourism	55	62 898	153 245	216 143	398 713
4.	Housing	31	56 355	80 906	137 261	196 325
5.	Transport	4	1 061	9 025	10 085	42 215
6.	Health	12	14 522	20 457	34 979	60 609
7.	Agriculture	17	19 660	25 969	45 629	87 996
8.	Contracting	15	3 567	7 849	11 416	24 277
9.	Consultancy	3	225	225	450	450
10.	Services	5	515	3 237	3 852	10 041
11.	Textiles	12	60 427	40 625	101 052	615 164
12.	Food and beverages	18	8 415	10 741	19 157	61 879
13.	Chemicals	23	6 814	28 933	35 747	55 567
14.	Wood products	6	2 796	5 265	8 061	13 973
15.	Engineering	10	6 014	11 373	17 387	59 895
16.	Building materials	17	56 906	20 744	77 650	226 267
17.	Metallurgy	9	3 984	7 338	11 322	15 596
18.	Pharmaceuticals	4	1 810	2 215	4 025	6 334
19.	Mining and petroleum	3	600	958	1 618	1 954
	Total	273	369 608	504 520	874 128	2 032 849
B.	Public free zones Total	45	1 793	36 693	38 486	61 256
C.	Private free zones Total	11	720	11 208	11 928	626 253
	GRAND TOTAL	329	372 121	552 421	924 542	2 720 358

Source: Ministry of Economic Co-operation.

Table 5. Status of inland projects as at 31 December 1979

Stage of execution	Number		Capital	
	Number	Percentage	Millions of Egyptian pounds	Percentage
In production	280	36.6	614.5	27
In implementation	273	35.6	874.1	38.4
Recently approved	213	27.3	789.1	34.6
Total	766	100	2 277.7	100

Source: Investment Authority.

22. Table 6 shows both Egyptian and foreign participation as at 31 December 1979. The former represents 58 per cent, some of it however in foreign exchange. The latter represents 42 per cent of the total capital.

Table 6. Participation of local and foreign capital in approved inland projects (as at 31 December 1979)

Country	Participation (in millions of Egyptian pounds)	Percentage
Egypt	1 316 177	58
Arab countries	356 402	16
United States	157 381	7
EEC countries	153 974	7
Other foreign countries	283 717	12
Total	2 277 651	100

Source: Investment Authority.

(b) Total projects (inland + free public and free private zones)

23. Table 7 shows the total contribution of both local and foreign capital to all projects approved by the Investment Authority and their stages of execution (as at 31 December 1979).

Table 7.

Types of project	Local capital	Foreign capital	Total
In production	265 082	543 079	808 161
In implementation	372 121	552 421	924 542
Recently approved	343 056	600 784	943 840
Total	980 259	1 696 284	2 676 453

Source: Investment Authority.

24. A high percentage of the foreign capital component derives from important transnational corporations, especially in the fields of banking, petroleum, engineering, pharamaceuticals, contracting, housing, construction, tourism and engineering. The rest is contributed by less important corporations or by private foreign firms, sometimes with Egyptian partners.

25. Tables 2 to 7 show that the open-door policy has already resulted in an appreciable increase in the inflow of foreign capital, and this is well reflected in the non-monetary capital account.

Table 8. Development of direct investment in the capital account of the balance of payments, 1975-1979

Year	(millions of Egyptian pounds)	
1975	5.5	
1976	42.7	
1977	7[illegible].1	
1978	220.9	
1979 (Estimate)	550.--	(first half of the year 330.1)

Source: Central Bank of Egypt, IMF, Investment Authority.

26. As shown from Table 8, direct investment has shown a rising trend - from L.E 5.5 million in 1975 to an estimated L.E 550 million in 1979. This corresponds with the figures given in tables 6 and 7 for the foreign capital component in projects in production and under implementation, allowing, however, for time lags. This growing trend is impressive, if account is taken of the fact that only a few years have passed since the implementation of the "open door policy" and that both the authorized capital and the planned total investment have to be spread over a number years depending upon the nature of the project. With further approvals and implementation, this element may contribute greatly to improving the balance of payments by increasing the inflow of foreign private capital.

27. Table 9 shows the increasing importance of direct investment in the capital account. It has increased from 9.7 per cent of this account in 1975 to 14.3 per cent in 1976, 23.8 per cent in 1977, 31.8 per cent in 1978 and 41.0 per cent in the first half of 1979. This has been accompanied by less reliance on other items of the non-monetary capital account, especially long-term loans.

Table 9. Balance of payments of Egypt: Non-monetary capital account, 1975 - 1979
(in millions of United States dollars)

	1975	1976	1977	1978	1979 Jan-June
Long-term loans	-72.3	368.8	567.8	779.9	505.8
Supplier credit	82.3	87.1	-135.9	-10.4	27.0
Direct investment	7.9	61.6	103.0	315.6	400.0
Other	63.4	-97.9	101.5	-90.2	-32.1
Total	81.3	420.6	433.4	994.9	899.7
Percentage of direct investment to total	9.7	14.3	23.8	31.8	41.0

36. Until the mid-1970s, most of the international-class hotels were owned by the Government through the "Egyptian General Organization of Tourism and Hotels Many of these hotels were operated under long-term management contracts with foreign hotel management companies Hilton, Sheraton, Meridien, and Inter-continental. Although there is usually a strong case for bringing in foreign management which has management expertise and market facilities yet it has been argued that these companies normally require investors to build hotels to deluxe standards while there is a much wider market potential for medium-class hotels. Another consideration is that these companies get about 25 per cent of the gross operating profits of hotels without contributing to their capital. It is further argued that while some foreign experts may always be hired, yet the chance should be given to Egyptians who have gained great experience in managing and operating hotels, instead of their working abroad or in foreign-managed hotels in Egypt with higher pay.

37. Such considerations are taken into account by the Investment Authority when it considers tourism projects submitted for approval. As shown on table 12 high priority is given to tourism, with the typical pattern of "joint venture", and important international corporations showing a growing interest in the Egyptian tourism industry. Table 12 shows the tourism projects established according to the Investment Law.

Table 12. The position of tourism projects as at 31 December 1979
(in thousands Egyptian pounds)

Number	Stage of execution	Local capital component	Foreign capital component	Total component	Total investment
21	In production	11 939	20 080	32 019	62 030
55	Under implementation	62 918	153 245	216 143	390 713
20	Recently approved	121 125	36 001	157 126	256 226
96	Total	195 962	209 326	405 288	716 969

Source: Investment Authority, Ministry of Finance

38. The rising trend of foreign exchange proceeds from tourism and their contribution to the balance of payments is expected to be strengthened in the future, with more approved projects being implemented and with the great development of the tourism potential of Sinai for which a plan has already been prepared.

39. Table 13 shows the tourism proceeds in the balance of payments since the mid-1970.

Table 13. Balance of payments - Current a/c tourism 1975 - 1979

Year	Millions of Egyptian pounds
1975	232.2
1976	324.7
1977	509.7
1978	491.0
1979 (Estimate)	530.0

Source: Central Bank of Egypt, IMF Ministry of Tourism

40. The over-all contribution of canal dues, workers remittances and tourism to the current account of the balance of payments is shown in table 14. This contribution has increased from 27 per cent of the services receipts in the current account in 1975 to 77 per cent in 1976, to 80 per cent in 1977, 90 per cent in 1978 and 94 per cent as estimated in 1979.

Table 14. Balance of payments of Egypt (1975 - 1979)
(in millions of Egyptian pounds)

Current account services (receipts)

		1975	1976	1977	1978	1979 (Estimated)
A.	Total receipts	755.8	1 383.5	1 786.2	2 412.0	2 750.0
	of which:					
B.	Canal dues	59.4	217.7	299.5	359.6	600.0
C.	Workers' remittances	256.2	528.4	627.6	1 332.9	1 500.0
D.	Tourism	232.2	324.7	509.7	491.0	530.0
E.	(A + C + D)	547.3	1 070.8	1 436.8	2 183.5	2 630.0
--	Percentage share of E in A	72	77	80	90	94

Source: Central Bank of Egypt, IMF.

Petroleum

41. The planning and development of the petroleum sector has been successful and has proceeded effectively despite changes in the political setting and in the orientation of the surrounding economic system. This has been done in partnership with experienced Western international oil companies which maintained a continuous and fruitful relation with the domestic petroleum sector. Because of the capital and technological intensity of the sector, it has been possible to develop the sector with a relatively small number of technically competent nationals and foreigners unencumbered by the Government bureaucracy.

The Anglo Egyptian Oilfields Company, mainly owned by Shell with a minority holding by the Egyptian Government, was about the only company operating in Egypt until 1956. Discoveries in the Western desert and the Gulf of Suez led to production rates that started at slightly more than half a million tons per year before World War II and increased to about 2.25 million tons in 1952.

42. In the 1960 the Government intensified the search for oil by signing exploration and development agreements with several oil companies. The loss of the Sinai fields during the 1967-1975 occupation was counterbalanced by the development of the large El-Morgan field and by new discoveries in the Gulf as well as in the Western desert. Natural gas has also been discovered in the desert and near Alexandria.

43. Exploration activities were further intensified after the establishment of the Ministry of Petroleum in 1973. While it safeguards the interests of the country as regards exploration, production, conservation and the follow-up of the "petroleum plan", it administers the sector in a business-like manner.

44. Some 55 agreements have already been concluded. They are of the production sharing type, and involve a commitment of $1.1 billion expenditure on exploration and development over a very wide area of Egypt, with signature bonuses totalling about $111 million.

45. Generally, foreign signatory is made responsible for all prospecting and, once oil is found, a part of production is earmarked for cost recovery. Usually the company commits itself to a minimum level of expenditure over a certain period which averages between seven and 12 years. If a commercial discovery is made, production is undertaken jointly with the Government; and expenditure on exploration, development and operations is recovered from the proceeds at a rate of between 20 and 40 per cent of oil production or actual costs. If actual expenditure exceeds this limit, the balance is transferred to subsequent periods. If it falls short, the remainder is either shared between the Government and the foreign partner or fully paid to the Government. This portion is known as "cost oil"; the remaining "profit oil" is shared between the Government and the Company on an agreed basis usually from 75 to 85 per cent for the Government.

46. Attention has also been recently directed towards natural gas production in the Nile delta and in the western desert. About 80 per cent associated gas in the Gulf of Suez is currently flared off, but a pipeline network is to be built up to bring this gas to industrial zones around Suez and to Cairo.

47. The petroleum sector's importance to the Egyptian economy has increased considerably in recent years. Its share in GDP rose from 3 per cent in 1975 to 8 per cent in 1978 and to 14 per cent in 1979. Exports of crude oil and petroleum products account now for more than half of Egypt's total exports receipts as shown in table 15.

Table 15. Exports of crude oil and petroleum products (1975 - 1979)
(In millions of Egyptian pounds)

Year	Total exports	Exports Oil & petroleum products
1975	1 096.2	123.6
1976	1 156.5	252.2
1977	1 394.6	284.3
1978	1 388.5	372.0
1979 (Estimates)	1 500.0	850.0

Source: Ministry of Petroleum.

- The country is a net exporter of both crude oil and refined petroleum products. Profits transfers to the Treasury, as well as direct and indirect taxes on petroleum products contributed about 20 per cent of total central Government revenues. Import substitution is an important aspect of the sector. In spite of the growing consumption of oil and its products, including lately butane gas, imports have not increased much as shown in table 16.

Table 16. Domestic consumption of crude oil and petroleum products (1975 - 1979)
(In thousands of metric tons)

	1975	1976	1977	1978	1979 (nine months)
Total domestic consumption	7 382	3 091	3 871	9 529	7 924
Production	8 614	9 950	10 530	11 362	8 990
Imports	470	344	299	508	403
Less exports	1 702	2 203	1 958	2 343	1 469

Source: Egyptian General Petroleum Corporation.

48. It is clear from this table that, while the volume of imports have remained almost static at between 300 and 500 thousand tons, the growing consumption demand has been met, inspite of the upward trend in exports. It is planned that to meet the increase in demand for certain products and butane gas, the production and storage of these products will be enhanced. The foreign exchange earnings of the sector would be much too high if account were taken of the difference between the internationally quoted prices of some locally consumed products and the actual prices charged by the Government to the consumer according to the system of supporting prices of some necessities to keep the cost of living low. For butane gas, super and ordinary petrol, kerosene, benzol and mazout, local rates for Egyptian consumers is only a small fraction of world prices, as shown in the following table.

Table 17. Petroleum products

	(Egyptian pounds)	
	World price (on 15 November 1979)	Local rates for Egyptian consumers
Butane gas (cylinder)	3 950	0 650
Petrol, Super (litre)	0 207	0 110
Petrol, Ordinary (litre)	0 200	0 090
Kerosene (litre)	0 223	0 025
Benzol (litre)	0 225	0 025
Mazout (ton)	105 000	7 500

Source: Egyptian General Petroleum Corporation and Ministry of Petroleum.

49. The over-all balance of payments of the petroleum sector is shown in table 18.

Table 18. Petroleum sector - Balance of payments (Crude & products) (1975 - 1979)

(In thousands of Egyptian pounds)

	1975	1976	1977	1978	1979 (Estimate)
Balance of payments	-7 484	137 371	227 435	326 125	780 000
Export proceeds	123 587	252 204	284 280	371 959	850 000
Payments	131 071	114 333	56 845	55 834	70 000

Sources: Egyptian General Petroleum Corporation, Central Bank, IMF and Ministry of Petroleum.

50. The great increase in foreign exchange earnings was due not only to a larger export volume but also to a more favourable balance between exports of crude and refined products, according to the policy of the Government.

Conclusion

51. The above analysis shows that, since the open-door policy, transnational corporations have had both the opportunity and the incentive to start or to increase investments in Egypt. Their impact on the balance of payments was particularly felt in the areas of direct foreign investment; worker's remittances, Suez Canal dues, tourism and the petroleum sector. The balance of payments has started to improve mainly owing to these elements, and there is enough reason to believe that it will continue in the future.